

ARTS COUNCIL OF NEW ORLEANS**Audit of Financial Statements**

**December 31, 2009 with Comparative
Totals for December 31, 2008**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/25/10

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Independent Auditor's Report

To the Board of Directors
Arts Council of New Orleans

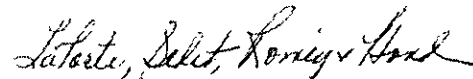
We have audited the accompanying statement of financial position of the Arts Council of New Orleans (ACNO, a Louisiana nonprofit corporation), as of December 31, 2009, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of ACNO's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from ACNO's 2008 financial statements which were audited by other auditors whose report dated September 25, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained on *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ACNO's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACNO as of December 31, 2009, and the results of its activities and changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2010 on our consideration of ACNO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of support and expenses for state and passed through grants and the summarized financial information for 2009 included on page 21 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



A Professional Accounting Corporation

June 28, 2010

ARTS COUNCIL OF NEW ORLEANS
Statement of Financial Position
As of December 31, 2009
With Summarized Financial Information as of December 31, 2008

	2009				2008
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Assets					
Current Assets					
Cash	\$ 173,604	\$ 1,240,970	\$ -	\$ 1,414,574	\$ 935,393
Investments	2,249	-	-	2,249	1,920
Grants Receivable	16,035	67,325	-	83,360	149,398
Deposit	615	-	-	615	615
Total Current Assets	192,503	1,308,295	-	1,500,798	1,087,326
Non-Current Assets					
Investments	-	141,170	285,000	426,170	383,595
Due from Louisiana Artists Guild, Net	-	-	-	-	554
Art Collection	26,452	-	-	26,452	26,452
Equipment, Furniture and Fixtures, Net	40,874	-	-	40,874	246,260
Total Assets	\$ 259,829	\$ 1,449,465	\$ 285,000	\$ 1,994,294	\$ 1,744,187
Liabilities and Net Assets					
Current Liabilities					
Refundable Advances	\$ -	\$ 934,104	\$ -	\$ 934,104	\$ 259,193
Grants Payable	-	192,101	-	192,101	355,810
Accrued Expenses	80,275	-	-	80,275	85,654
Current Portion of Notes Payable	-	-	-	-	497,858
Total Current Liabilities	80,275	1,126,205	-	1,206,480	1,198,515
Net Assets	179,554	323,260	285,000	787,814	545,672
Total Liabilities and Net Assets	\$ 259,829	\$ 1,449,465	\$ 285,000	\$ 1,994,294	\$ 1,744,187

The accompanying notes are an integral part of these financial statements.

ARTS COUNCIL OF NEW ORLEANS
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2009
With Summarized Financial Information as of December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2008 Total
Revenue, Gains and Other Support					
Grants	\$ 247,205	\$ 728,103	\$ -	\$ 975,308	\$ 1,071,870
Contributions	192,437	156,000	-	348,437	976,186
Contracts	1,150	80,090	-	81,240	26,559
Interest and Investment Income (Loss)	470	61,160	-	61,630	(66,533)
Other Income	164,053	-	-	164,053	105,178
Gain on Extinguishment of Debt	497,858	-	-	497,858	-
Total Revenue, Gains and Other Support	1,103,173	1,025,353	-	2,128,526	2,113,260
Net Assets Released from Restrictions	1,082,629	(1,082,629)	-	-	-
Expenses and Losses					
Regrants	715,828	-	-	715,828	808,406
Salaries and Benefits	532,398	-	-	532,398	504,138
Professional Fees	176,178	-	-	176,178	229,795
Occupancy	58,911	-	-	58,911	72,330
Artist Fees and Services	52,897	-	-	52,897	493,389
Supplies	35,240	-	-	35,240	38,477
Travel, Meetings, Conferences and Courses	23,568	-	-	23,568	50,897
Insurance	23,143	-	-	23,143	15,085
Postage, Printing and Duplicating	22,765	-	-	22,765	18,759
Advertising	20,161	-	-	20,161	25,034
Other	11,524	-	-	11,524	20,023
Depreciation	1,800	-	-	1,800	1,860
Interest Expense	849	-	-	849	30,649
Total Expenses	1,675,262	-	-	1,675,262	2,308,842
Loss on Equipment Write-off	211,122	-	-	211,122	-
Total Expenses and Losses	1,886,384	-	-	1,886,384	2,308,842
Change in Net Assets	299,418	(57,276)	-	242,142	(195,582)
Net Assets, Beginning of Year	(119,864)	281,941	383,595	545,672	741,254
Restatement of Net Assets	-	98,595	(98,595)	-	-
Net Assets, Beginning of Year (as Restated)	(119,864)	380,536	285,000	545,672	741,254
Net Assets, End of Year	\$ 179,554	\$ 323,260	\$ 285,000	\$ 787,814	\$ 545,672

The accompanying notes are an integral part of these financial statements.

ARTS COUNCIL OF NEW ORLEANS
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009 Total	2008 Total
Cash Flows from Operating Activities		
Change in Net Assets	\$ 242,142	\$ (195,582)
Adjustments to Reconcile Changes in Net Assets to		
Net Cash Provided by Operating Activities		
Depreciation	1,800	1,860
Net Realized and Unrealized (Gain) Loss on Investments	(53,632)	100,633
Gain on Extinguishment of Debt	(497,858)	-
Loss on Equipment Write-off	211,122	-
Changes in Operating Assets and Liabilities		
Grants and Pledges Receivable	66,038	79,883
Due from Louisiana Artists Guild	554	-
Refundable Advances	674,911	(42,548)
Grants Payable	(163,709)	144,187
Accrued Expenses	(5,379)	27,418
Net Cash Provided by Operating Activities	475,989	115,851
Cash Flows from Investing Activities		
Acquisition of Equipment, Furniture and Fixtures	(7,536)	-
Proceeds from Sale of Investments	20,430	17,649
Purchase of Investments	(9,702)	(3,854)
Net Cash Provided by Investing Activities	3,192	13,795
Cash Flows from Financing Activities		
Payments on Notes Payable	-	(2,142)
Net Cash Used in Financing Activities	-	(2,142)
Net Increase in Cash	479,181	127,504
Cash, Beginning of Year	935,393	807,889
Cash, End of Year	\$ 1,414,574	\$ 935,393

The accompanying notes are an integral part of these financial statements.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 1. Organization and Operation

The Arts Council of New Orleans (ACNO), a non-profit organization, is the City of New Orleans' officially designated arts agency. ACNO was formed in 1981 as a result of a merger of the Arts Council of Greater New Orleans and the Mayor's Committee for Arts and Cultural Development. ACNO's efforts are directed toward enhancing the cultural and artistic environment in the New Orleans metropolitan area.

Note 2. Summary of Significant Accounting Policies

Method of Accounting

The financial statements are prepared on the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles.

Basis of Presentation

The fiscal 2009 financial statement presentation is in accordance with the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Accordingly, ACNO reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets are those whose use by ACNO has been limited by donors to a specific time period or purpose.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with ACNO's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

Use of Estimates

U.S. generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the investment.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Contributions

ACNO considers contributions receivable to be fully collectible. Accordingly, no allowance for uncollectible contributions is required. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when stipulated time restriction ends or purpose/project restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of revenues, expenses, and other changes in net assets as net assets released from restrictions.

Allowance for Uncollectible Accounts

ACNO provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to valuation allowance based on management's assessment of the current status of individual accounts.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivable account. ACNO has a receivable from Louisiana Artists Guild (the Guild) for expenses that were paid by ACNO in prior years on the Guild's behalf totaling \$1,489,922 at December 31, 2009 and 2008. Management has estimated the allowance related to this receivable at December 31, 2009 and 2008 to be \$1,489,922.

Donated Services

Volunteers have given extensive amounts of time and services to ACNO. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria necessary for recognition. In-kind contributions received by ACNO were not material in 2009 and 2008.

Depreciation of Equipment, Furniture and Fixtures

ACNO's equipment, furniture and fixtures consist of office equipment and furnishings which are being depreciated utilizing the straight-line method over their useful lives of three to five years. Depreciable assets are valued at their cost if purchased or their estimated fair value at the time of donation if contributed.

Interest Income

Interest income is allocated to restricted programs to fund certain costs when specifically required by applicable contracts or grants.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

The Council periodically maintains cash in bank accounts in excess of insured limits. The Council has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

Income Taxes

ACNO is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and, accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

Contributed Artwork

ACNO has paintings and sculptures on display in its offices. This artwork is recorded at its appraised value at the time of donation. The carrying value of the artwork at December 31, 2009 and 2008, was \$26,452.

Note 3. Investments

ACNO maintains several endowment funds at the Greater New Orleans Foundation (GNOF). These funds are in an investment pool managed by the GNOF. Annually, the GNOF determines the amounts available for distribution. Of the four funds held at the GNOF, three of the funds are classified as permanently restricted and one fund is unrestricted. Currently, the amount available for distribution in the permanently restricted funds is equal to 4% of the previous twelve quarters average fund balance. Any unexpended income is reinvested in the funds. The investments are classified on the statement of financial position as follows:

	2009	2008
Unrestricted	\$ 2,249	\$ 1,920
Temporarily Restricted	141,170	98,595
Permanently Restricted	285,000	285,000
Total	\$ 428,419	\$ 385,515

Investment income (loss) consists of the following for the years ended December 31, 2009 and 2008:

	2009	2008
Interest Income	\$ 9,924	\$ 30,247
Investment Income Reinvested	-	6,139
Realized and Unrealized Gain (Loss) on Securities	53,632	(100,633)
Investment Fees	(1,926)	(2,286)
Total	\$ 61,630	\$ (66,533)

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 4. Depreciable Assets

Depreciable assets are summarized as follows by major classification at December 31st:

	2009	2008
Office Equipment	\$ 153,977	\$ 221,434
Café Equipment	2,100	2,100
Audio Visual Equipment	-	211,122
	156,077	434,656
Less: Accumulated Depreciation	(115,203)	(188,396)
Net Depreciable Assets	\$ 40,874	\$ 246,260

Depreciation expense was \$1,800 and \$1,860 in 2009 and 2008, respectively.

Note 5. Fair Value of Financial Instruments

The Arts Council of New Orleans has adopted the provisions of FASB ASC *Fair Value Measurements* Topic. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This guidance establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.

Level 3 - Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 5. Fair Value of Financial Instruments (Continued)

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

ACNO's measurements of fair value are made on a recurring basis, and their valuation techniques for assets and liabilities recorded at fair value are as follows:

	Level 1	Level 2	Level 3	Fair Value
December 31, 2009				
GNOF Fund - Investment Pool	\$ 167,881	\$ 224,334	\$ 36,204	\$ 428,419
Total	<u>\$ 167,881</u>	<u>\$ 224,334</u>	<u>\$ 36,204</u>	<u>\$ 428,419</u>
December 31, 2008				
GNOF Fund - Investment Pool	\$ 151,247	\$ 203,401	\$ 30,867	\$ 385,515
Total	<u>\$ 151,247</u>	<u>\$ 203,401</u>	<u>\$ 30,867</u>	<u>\$ 385,515</u>

The changes in investments and pledges receivable measured at fair value for which ACNO has used Level 3 inputs to determine fair value are as follows:

	Level 3 Beginning Balance	Net Realized and Unrealized Gains (Losses)	Net Payments and Gifts	Net Purchases and Sales	Net Transfers In (Out) of Level 3	Level 3 Ending Balance
December 31, 2009						
GNOF Fund - Investment Pool	\$ 30,867	\$ (4,606)	\$ -	\$ 9,943	\$ -	\$ 36,204
	<u>\$ 30,867</u>	<u>\$ (4,606)</u>	<u>\$ -</u>	<u>\$ 9,943</u>	<u>\$ -</u>	<u>\$ 36,204</u>
December 31, 2008						
GNOF Fund - Investment Pool	\$ 19,210	\$ (2,191)	\$ -	\$ 13,848	\$ -	\$ 30,867
	<u>\$ 19,210</u>	<u>\$ (2,191)</u>	<u>\$ -</u>	<u>\$ 13,848</u>	<u>\$ -</u>	<u>\$ 30,867</u>

Note 6. Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2009:

	2009	2008
Time Restriction - GNOF Endowment Investment Income, Net	\$ 141,170	\$ 98,595
Joan Mitchell Foundation for Support of the Business Center	101,104	72,011
Joan Mitchell Foundation for Support of the Sculpture Project	56,137	139,053
Stern Fund for an Artist to Work in Schools, Recreation, and Elderly Centers	20,149	41,648
Welch Funds for the Use of Services and Resources by and for Artists for the Community in Future Years	4,700	4,700
Tremaine Foundation for Support of the Business Center	-	24,529
Total	<u>\$ 323,260</u>	<u>\$ 380,536</u>

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 6. Restrictions on Net Assets (Continued)

Permanently restricted net assets consist of endowment fund assets held indefinitely by the Greater New Orleans Foundation. The GNOF uses the total return basis and annually ACNO receives 4% of the investment's average fair value for the prior twelve quarters. The income from these funds is expendable as stipulated by the donor.

Note 7. Notes Payable

ACNO had an outstanding balance on a note with a local financial institution of \$497,858 at December 31, 2008. During 2009, the debt was extinguished through payment of the full balance due by a donor. As of December 31, 2009, the balance due on this note payable was \$-0-.

Note 8. Lease Obligations

In 2006, ACNO entered into a lease agreement for the lease of office space. Subsequent to December 31, 2009, ACNO renewed its operating lease agreement to extend through June 30, 2010. Lease payments of \$2,350 are due monthly.

ACNO leases office equipment under two lease agreements. Payments of \$370 are due monthly on a lease expiring in 2013, and payments of \$271 are due monthly on a lease ending in 2012 which includes a repair and maintenance service agreement.

Future minimum lease payments on the leases in effect as of December 31, 2009, are as follows:

2010	\$ 21,792
2011	7,692
2012	5,524
2013	2,590
Total	<u>\$ 37,598</u>

Note 9. Commitments

Since 1986, ACNO has entered into annual agreements with the City of New Orleans (the City) relating to the establishment of the Percent For Art Program under which one percent of the cost of eligible City capital projects is to be used to fund certain works of art. ACNO's ongoing tasks include developing an Annual Art Plan to carry out the implementation of selected art projects, and short-term and long-term coordination and planning for the program. ACNO incurred expenditures of \$23,631 and \$14,141 in 2009 and 2008, respectively, for administrative duties performed to accomplish the agreed upon tasks. Included in refundable advances is \$932,381 and \$259,193 in 2009 and 2008, respectively, for the Percent for Art Program.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 10. Guarantees

In May, 2004, ACNO became the guarantor on a promissory note held by the Louisiana Artists Guild (the Guild) in the amount of \$2,000,000. At December 31, 2009 and December 31, 2008, the note had an outstanding balance of \$2,360,596, respectively. The note was due on December 28, 2008 and was deemed in default as of December 31, 2009. Subsequent to December 31, 2009, the financial institution cancelled the note and released ACNO as a guarantor on this note.

ACNO was also the guarantor on a promissory note held by the Guild at a local financial institution. Subsequent to year end, the lender released ACNO as a corporate guarantor for the debt of the Louisiana Artists Guild.

Note 11. Functional Classification of Expenses

Expenses by function for the year ended December 31, 2009 were as follows:

	2009	2008
Expenses		
Program Services		
Grant Programs	\$ 890,411	\$ 959,929
Arts Business Center	224,012	245,796
Public Art Programs	176,838	665,721
New Orleans Fun Guide	173,300	129,245
Advocacy	733	732
Louisiana Artists Guild	-	31,757
Supporting Services		
Development/Fundraising	96,223	101,453
General and Administrative	113,745	174,209
Total Expenses	\$ 1,675,262	\$ 2,308,842

Note 12. Endowment Fund

ACNO's permanent net asset composition as of December 31, 2009 and 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
December 31, 2009				
GNOF Fund	\$ -	\$ -	\$ 285,000	\$ 285,000
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,000</u>	<u>\$ 285,000</u>
December 31, 2008				
GNOF Fund	\$ -	\$ -	\$ 285,000	\$ 285,000
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,000</u>	<u>\$ 285,000</u>

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 12. Endowment Fund (Continued)

A summary of changes in ACNO's permanent net assets for the years ended December 31, 2009 and 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, January 1, 2009	\$ -	\$ 98,595	\$ 285,000	\$ 383,595
Investment Return				
Investment Income (Loss)	-	9,651	-	9,651
Net Realized and Unrealized Gain	-	53,344	-	53,344
Distributions / Fees	-	(20,420)	-	(20,420)
Net Assets, December 31, 2009	\$ -	\$ 141,170	\$ 285,000	\$ 426,170

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, January 1, 2008	\$ -	\$ 212,544	\$ 285,000	\$ 497,544
Investment Return				
Investment Income (Loss)	-	12,733	-	12,733
Net Realized and Unrealized Loss	-	(107,257)	-	(107,257)
Distributions / Fees	-	(19,425)	-	(19,425)
Net Assets, December 31, 2008	\$ -	\$ 98,595	\$ 285,000	\$ 383,595

Endowment Spending Policies - ACNO's investment spending policy is that all income earned on the endowment fund is to be reinvested or used for operating purposes.

Endowment Investing Policies - ACNO's fund is maintained and managed by the GNOF within their investment pool. The fund is invested by GNOF with an attempt to provide a predictable stream of funding to operations supported by its endowment.

Note 13. Uncertain Tax Positions

ACNO follows the provisions of the *Accounting for Uncertainty in Income Taxes* Topic of the FASB Accounting Standards Codification. The implementation of this Topic had no impact on the statements of financial position and the statements of activities and changes in net assets.

All tax returns have been appropriately filed by ACNO. ACNO recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. ACNO's tax filings are subject to audit by various taxing authorities, and its open audit periods are 2006 through 2008. Management evaluated ACNO's tax position and concluded that ACNO has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

ARTS COUNCIL OF NEW ORLEANS

Notes to Financial Statements

Note 14. Restatement of Net Assets

During the year it was noted that included in permanently restricted net assets were not only the initial contributions to the three permanently restricted endowments of \$285,000, but also the undistributed net income earned by the endowments. This resulted in an overstatement of permanently restricted net assets. Accordingly, a reclassification of \$98,595 was made during fiscal year ended 2009 to reduce permanently restricted net assets and increase temporarily restricted net assets. The reclassification had no effect on total net assets for fiscal year 2009.

Note 15. Subsequent Event

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 28, 2010, and determined that, other than as described in Note 10, no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Arts Council of New Orleans

We have audited the accompanying financial statements of the Arts Council of New Orleans (ACNO) as of and for the year ended December 31, 2009, and have issued our report thereon dated June 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered ACNO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACNO's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ACNO's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

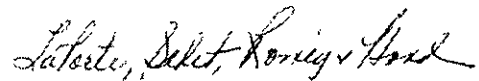
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACNO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Louisiana Legislative Auditor and is not intended to be and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



A Professional Accounting Corporation

June 28, 2010

ARTS COUNCIL OF NEW ORLEANS

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2009

Section I - Summary of Auditor's Reports

Financial Statements

- | | |
|---|-------------|
| 1. Type of auditors' report | Unqualified |
| 2. Internal control over financial reporting | |
| a. Material weaknesses identified | None |
| b. Significant deficiencies identified not considered to be material weaknesses | Yes |
| c. Noncompliance material to the financial statements noted | None |

Federal Awards - Not applicable

Section II - Financial Statement Findings

2009-1 Dual Signatures

Condition: Although dual signatures are required for all disbursements greater than \$3,000, we noted that some disbursements were split into two checks below the \$3,000 threshold. This renders the highly effective control of dual signatures ineffective.

Criteria: Checks less than \$3,000 should not be signed if supporting documentation suggests the total disbursement is greater than the \$3,000 threshold.

Effect: As disbursements are split into two payments, the risk exists that disbursements could be issued without proper authorization or knowledge of management or the board of directors.

Recommendation: Any checks with supporting documentation suggesting the total disbursement is greater than \$3,000 should only be signed by two authorized signers after the completion and review of the supporting documentation by both check signers.

Managements

Response: The Board Finance Committee will review procedures to determine the best action to meet required fiscal responsibility.

2009-2 Bank Reconciliations

Condition: At present, bank accounts are reconciled by the accounting manager, who also prepares the deposits and disbursements. In addition, there is no review of the bank statements or reconciliations.

ARTS COUNCIL OF NEW ORLEANS

**Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2009**

2009-2 Bank Reconciliations (Continued)

Criteria: The reconciliation should be performed by someone other than the preparer of the deposits and the person preparing checks. This will reduce the risk that misappropriation of cash assets could be concealed or that errors will not be discovered.

Effect: Without proper segregation of duties or a supervisory review, the risk exists that misappropriation of assets or errors will not be prevented or detected.

Recommendation: Bank reconciliations should be performed by someone other than the preparer of the deposits and the person preparing checks.

If proper segregation of duties is not possible due to the smaller staff size of the entity, then a board member may periodically perform a supervisory review of cash activity. Some specific examples include comparing checks deposited with the cash receipts log, reviewing all cash disbursements along with related documentation, reviewing outstanding checks, and reviewing bank statements and bank reconciliations monthly.

*Managements
Response:*

The Board Finance Committee will review procedures to determine the best action to meet required fiscal responsibility.

ARTS COUNCIL OF NEW ORLEANS

**Schedule of Prior Year Findings
For the Year Ended December 31, 2009**

2008-1 Legislative Auditor Deadline

Finding: ACNO did not meet the June 30, 2009 deadline for reporting to the State of Louisiana as required under Louisiana statute.

Current Status: Resolved

ACCOMPANYING INFORMATION

ARTS COUNCIL OF NEW ORLEANS
Schedule of Support and Expenses for State and Passed Through Grants
For the Year Ended December 31, 2009

	Louisiana Division of the Arts			National Endowment for the Arts	
	Grant #	Grant #	Grant #	Grant #	Grant #
	FY09-373	FY09-382	FY10-394	FY10-404	09-6288-7047
Support					
Grants Received or Receivable	\$ -	\$ 30,000	\$ 98,724	\$ 459,829	\$ 36,755
Expenses					
Salaries and Salary Related Expenses	\$ 12,551	\$ -	\$ 60,570	\$ 47,422	\$ 15,780
Regrants	-	-	-	391,348	-
Operating Expenses - General	16,141	30,000	38,154	11,093	1,836
Total Expenses	\$ 28,692	\$ 30,000	\$ 98,724	\$ 449,863	\$ 17,616

See independent auditor's report.